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Address to the sixth
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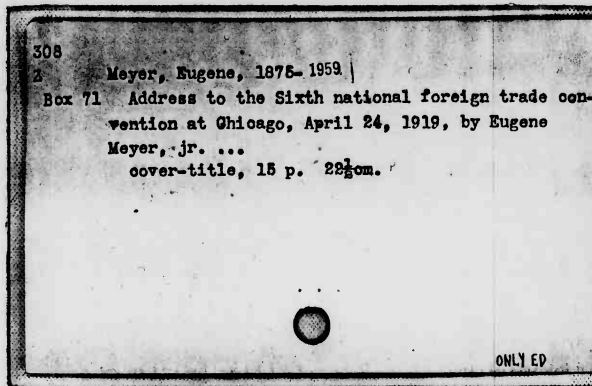
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ADDRESS

TO THE

Sixth National Foreign Trade
Convention

AT

CHICAGO, APRIL 24, 1919

BY

Eugene Meyer, Jr.

Managing Director of the War Finance Corporation

20 March, 1920 - E. R. W.

FINANCING FOREIGN TRADE

GENTLEMEN:

I have looked forward to this moment as to a great opportunity, for I earnestly believe that this meeting of the National Council of Foreign Trade can and should be made of vital importance in the bettering of the present world situation and in placing the United States where it of right belongs in the future economic ranking of the nations. For to you, more than to any other group of business interests, is it given to lead our country and other countries out of a state of industrial and commercial disorganization.

It is with intention that I have made the bettering of the world situation my first point, for if the war has taught us anything, it is the conviction that our country's welfare is inextricably bound up with the welfare of the last and least of the other peoples, that both politically and economically we are no longer the detached unit we formerly thought ourselves, but an important power in the constantly interacting forces of the life of the nations.

A "LIVE AND LET LIVE" POLICY

I wish to urge economic liberalism from no sentimental point of view, but from the point of view of an enlightened self interest and in the belief that America as the world creditor instead of the debtor nation of before the war, must fill a new and broader role in future economic developments. In short, we must accept and be worthy of our new economic leadership. It is a leader-

ship that we have not sought, but events have thrust it upon us, and it becomes our inevitable duty to consider how best we may meet our enlarged responsibilities toward our fellow nations and toward ourselves. I urge a policy of "live and let live" because I have in mind primarily our own industry, our own labor, our own finances and our own national well-being. But such a policy intelligently and energetically carried out will reach much further; it will enable Europe to restore its industry and employment of labor and thus hasten the world's political and social peace.

But a certain caution in international trade relationship is still imperative. Even if we now join a concert of nations for the purpose of preventing war and for the settlement of international disputes, we may not safely assume a complete fruition of our every hope. I think every country will be justified in endeavoring to assure its economic integration to the greatest extent that is possible. The war has taught us the value of certain key industries. We should demand the preservation of those industries, and should endeavor to secure the supplies and materials necessary for their maintenance, and we should be equally willing to contemplate other countries doing the same thing.

EUROPEAN CONDITIONS

The unparalleled problems which now exist undoubtedly call for discerning courage in those who, like yourselves, are called upon to solve them; and the full seriousness of conditions in Europe must be understood

before we can proceed intelligently and without undue risk to ourselves. Countries like England that import raw material, and export manufactured goods, are facing difficulties owing to the high prices of materials, the disturbed conditions of labor, and the derangements of markets. In this connection, let me quote from an English weekly the *New Statesman* of March 29th in regard to the situation over there:

"The numbers of the unemployed go mounting up, reaching now nearly fourteen hundred thousand, the increase week by week being no longer mainly in woman munition workers and juveniles, but steadily more and more in adult men, including somewhere approaching a couple of hundred thousand of the demobilized soldiers. The Government has already broken into its thirteenth million pound of Unemployed Benefit, and has still no plan of preventing unemployment. What the employers are saying is that having now, in some industries, worked through their old orders, they are getting no new ones. The same story comes from other countries. Everywhere, though the world is full of urgent needs, industry is sticking because of a reluctance to begin. Those who want the goods hang back because they think that in a short time prices will fall still further. No one dares to produce for stock, or for speculative export, lest the slump should come before the wares are sold. Those who have buildings to erect or repairs to execute prefer to wait a little longer in the hope of cheapness. What is described as a universal lack of confidence paralyzes the commercial world."

Conditions on the continent are even more serious because of the vast destruction on the numerous battle-fronts and because there the greater death-rate has decreased the productive and recuperative powers of the nations.

Both in England and on the continent, moreover, internal and foreign indebtedness, involving money in unheard of sums, and taxation on an unprecedented scale, will make the thoughtful men of every country pause for consideration. Regulatory power in Europe created in order to concentrate activities, money and material for war purposes, is now being used to curtail unnecessary personal and national expenditure. The resulting embargoes placed by France, England and Italy, though natural under the circumstances, add to the complications of the problem.

UNUSUAL TRADE METHODS NECESSARY

What then, are the first and most practical methods for resuming trade relations and restoring something like normal commercial intercourse on a basis of mutual interest? Normally, commerce is carried on by one country exchanging its goods and services for the goods and services of other countries. Our former international business associates have used their resources so freely during the long struggle that they now temporarily lack the means to pay in the ordinary way. With their tremendous obligations and with their depleted reserves they can spare no gold, in exchange for goods which we might sell. The indebtedness they held against us in

1914 has been liquidated by the sale of their holdings of our securities, as part of the purchase price for the munitions and materials we supplied before we came into the war. Great debts have been piled up with our Government by England, France and Italy. Their industries are still very far from being restored to the pre-war conditions of production that would enable them to pay in goods. It is to our advantage promptly to restore our export trade in the lines of raw materials and manufactured goods. I believe it is to their advantage to acquire these materials except such as may be classed strictly as luxuries, so that they may restore their plants, equip their transportation systems, and obtain the raw materials which their industries need for domestic consumption and for export. Mutual interest determines the right policy. From our point of view, it is in our interest to market our products and to restore the commercial standing and prosperity of our customers. It is in their interest to restore their normal economic operations and their employment of labor. Obviously, if it is our interest to sell and theirs to buy, and if they are unable to pay in the ordinary way, unusual and extraordinary methods must be devised to suit the emergency.

GOVERNMENT AID

With this in mind, the Treasury Department asked and Congress passed an amendment to the War Finance Corporation Act whereby the Corporation is authorized to lend one billion dollars to American exporters to

enable them to sell American goods abroad on long term credits or to bankers financing such exporters. The possible applications of the funds can easily be seen to lie along a few well-defined lines. Our credits to Europe will have to be long enough to give the foreign manufacturer time to restore his production organization and to renew his normal selling connections. This may take one year or it may take several. A foreign buyer having relations with a certain American seller may give his long term obligation, or a group of foreign buyers may give a joint obligation to an American seller or sellers. This grouping might be done in industries or in groups of industries. The foreign purchasers in single units or groups may act through a bank or a group of banks in the purchasing country. The obligations would be such as to conform to the business and the institutions of the buying country, subject, of course, to the arrangements being satisfactory to the sellers and lenders in this country.

It is to be expected that our sellers would require payment in dollar exchange, and the buyers might reasonably figure, in some of the countries at least, on a chance to make an additional profit through a prospective improvement in the rates of exchange by the time the payments come due. Perhaps they could even pay before maturity, should the exchange move more rapidly in their favor than anticipated.

THE BELGIAN CREDIT

A Belgian acceptance credit for fifty million dollars was arranged on behalf of a group of industries in Bel-

gium through a group of seventy Belgian banks acting in conjunction here with a large syndicate of American banks and bankers cooperating under the leadership of four of our principal institutions. The arrangement constitutes an interesting illustration of one form in which banks and industries on either side of the water may be associated in the buying and borrowing on the one hand and in the selling and lending on the other hand.

The essential feature is that the buying side should furnish an obligation so obviously secure that the seller is justified in accepting it. The association of a large number of participants when feasible, tends to improve the security and diminish the risk. In the case of the Belgian credit the security seems to have been so satisfactory that the transaction was undertaken entirely by our bankers without participation in the loan by the eventual sellers of the merchandise. These alternatives are all obviously inherent in the situation and as new combinations of conditions present themselves it should be possible to work out the details.

POLICY OF THE WAR FINANCE CORPORATION

The War Finance Amendment is in no sense an attempt to increase governmental paternalism but is in keeping with the policy to which the War Finance Corporation has constantly adhered; namely, to further commercial enterprises only in cases where they cannot obtain the usual banking assistance.

The Corporation was created in April, 1918, with power to extend financial aid to American industries

whose operations were necessary or contributory to the prosecution of the war where money could not be obtained through ordinary banking channels, or to banks that had financed such industries. Seven-eighths of the large total resources were restricted for loans to banks, but only a small number of such loans were applied for or made. The larger number of applications concerned direct loans to corporations and these were helped by actual loans or contracts to lend to the extent of about \$100,000,000, before the armistice. Of this total about sixty millions has been repaid.

In September we agreed to make advances to the railroads in proper cases. This was in line with the clear intent and purpose of the Act which specifically mentions railroads under Federal Control. Secretary McAdoo in his testimony before the Congressional Committees emphasized the importance of this phase of the Corporation's activities. We have loaned to railroads on bonds and shares as securities in accordance with the provisions of the Act about ninety millions, to the Director General on similar security fifty millions, to railroads about twenty-seven millions on the security of certificates of indebtedness of the Director General. All of our loans before the armistice, as well as after, have been made only when it appeared impossible for the companies to obtain accommodation through private channels at reasonable rates. In many cases we worked in cooperation with bankers of the applicant, they taking a part and we taking a part. In other cases holders of security issues cooperated by extending their maturing obligations in part. In some important cases this co-

operation was made a condition of our assistance. In all cases, however, we endeavored to maintain an attitude of helpfulness, having regard always to the limitations of our law as to security and other provisions of the Act.

And now if you gentlemen representing American production should make satisfactory credit arrangements with foreign purchasers which cannot be cared for by your bankers, the War Finance Corporation is ready to stand behind you in the same spirit, to help you, if you wish it, in creating and carrying out a system of long-term credits and obligations for the promotion of international trade.

FOREIGN LOANS

Up to the present only one large private banking credit, that of \$50,000,000 for Belgium has been negotiated, and this is to be repayable in one year. Obviously, the goods which can be purchased and paid for in the ordinary way, within a year, will be small compared with the needs of the situation. Later on there will be the transfer of large holdings of securities to our investment markets. These transfers of securities may be either in the form of European holdings of investments in neutral countries, or in the flotation in our investment market of large foreign industrial issues, or national loans. The old established and well known Finance Trust of England and Scotland is a form of organization that may prove useful in marketing the securities. But for the moment, when we ourselves are raising thousands of millions of dollars for our

own Government, American investors cannot be expected to absorb foreign industrial and Government loans in amounts that would make the proceeds a factor for our commerce and industry.

This power to loan to promote trade has not as yet been used to any extent. At first, the European countries felt that rigid economy rather than borrowing should be their principle, but lately they are beginning to take a different view and I believe the necessary mechanisms will be devised to make operative this governmental aid.

Apart from the reluctance of the buying countries, there is a natural hesitation on the part of our exporters to enter into transactions which involve long term credits until the peace negotiations have proceeded further, and until something approaching a definite political settlement has been completed. The high price levels are another factor which make for uncertainty, and therefore deter the development of business.

WAR FINANCE AUTHORIZATION ACTS AS STIMULANT

But entirely apart from the application of any portion of the fund, the passage by Congress of the amendment has served to stimulate the consideration of the necessary credit mechanisms on the part of private interests. When the amendment was being discussed before the Senate Finance Committee, I stated that we did not contemplate supplanting private banking, but only supplementing it, and that we thought the passage of this Act would stimulate our merchants and bankers to greater courage and prompter action in offering credits to foreigners. Judging from the great amount of discussion in the daily

press and in banking circles, I believe it has been successful in this respect. I hope that every facility that is properly suited to the conditions may be provided by private enterprise, but if these methods cannot be made effective, the War Finance Corporation stands ready to support any plan that it considers sound and within the provisions of the Act.

SPECIALLY TRAINED MEN NEEDED

In consideration of the magnitude and importance of these questions, it may seem that progress is slow, but it must be borne in mind that our banking institutions and our industries are faced with new problems whose difficulties are unprecedented in economic history. As has been said so often before, we are now a creditor country instead of a debtor country. The financing of our export business under present conditions calls for special facilities and specially trained people. These cannot be created in a day or in a month. Beside the emergency machinery, we must create permanent organizations which look to the future. The great trading countries of Europe had institutions and had people with a record of years of gradual development and training to equip them for their tasks. Our problems have been thrust upon us in an instant. With a few exceptions our bankers may be described as national and not international. The foreign languages are known only to a few. Knowledge of the various countries, of their methods of industry and finance, is now necessary for the direction of our industry and our finance, but at present our knowledge is theoretical rather than practical, when it exists

at all. It behooves us then to give immediate attention to the training of men who will be fit to carry on this economic leadership. In studying the situation with a view to determining what is right for us nationally and what is to the interest of other countries, we must study the economic structure and the social conditions of other countries. Without such knowledge, we shall not be able to act effectively. You men in business know that after all the discussion of theories and the formulation of systems, you always come back to the fundamental factor that underlies the whole, and that is the human factor—the man to do the work, to carry out the system, the specially experienced personnel that is essential.

When we went into the war we found that the men for the Army could be quickly trained, but our great difficulty was in training officers to command the men, and providing a General Staff capable of conducting great operations. The present crisis finds us with an economic organization, in which the highest rank is "Captain of Industry" and we need promptly to proceed to the training of majors, colonels, and generals of industry and finance, and a General Staff capable of conceiving large policies and directing great operations in the spirit of world economics.

This is one of the problems with which this convention should concern itself. Our colleges and universities are notably deficient in training young men for this work, and the teaching of languages as it is carried on is useless for practical purposes. One of our great banks has undertaken during the past few years to conduct a training school for foreign trade. This is a step in the right direc-

tion, but it is not sufficient to meet the present great needs of the country. If we are to carry out worthily the great responsibility that is ours today, we must build up our institutions for the training of men in foreign trade problems, foreign methods and foreign languages. I hope this convention, representing industries interested in the export trade, will commit itself to the formulation of a program designed to develop our facilities for the training of the personnel, both industrial and financial, that is immediately necessary if the United States wishes to hold the position that is ours at the present moment.

The discussion of the League of Nations cabled from the other side contains little as to international economic and financial questions. The news centers largely around the form of the covenant and the political and territorial considerations that are involved. You know that when it comes to the practical application, the questions that will be pressed for solution will be largely economic, and only trained men with a knowledge of world economics will be able in the future to deal with these problems in a way to uphold our rights with a full recognition of the interests and the rights of others.

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